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FOOD SUBSIDIES IN CANADA

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DIVISION OF RESEARCH
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MEMORANDUM

June 15, 1943

TO: Mr. William S. B. Lacy, Chief

FROM: Barbara Donald,
Canadian Section

SUBJECT: Food Subsidies in Canada

In order to implement the maintenance of the retail ceiling and to maintain and **promote** essential production, the Canadian government has authorized the **payment** of subsidies on a number of commodities, principally food products.

1. Food Price Policy

The prices of all foods, with the exception of sales by primary producers to dealers and sales of fresh fruits and vegetables and fish at all levels, have been subject to the general price ceiling since it was first established on December 1, 1941.^{1/} The Board has replaced base period individual ceilings with uniform dollar and cents maximum prices for a number of the most important foods, e.g. milk, butter, cheese, eggs, beef, veal, lamb, pork, bacon, lard, poultry, potatoes and canned fruits and vegetables. Primary producers' prices of the most important food items are exempt from price ceilings but dollar and cents ceilings have been fixed usually at the processing or wholesale level and maximum wholesalers' and retailers' markups have been established. Dollar and cents retail ceilings are in effect for only bananas, milk and for beef in specified areas. Fresh fruits and vegetables have been exempt from the general price ceiling at all levels since the ceiling was established, with the exception of onions and potatoes which were brought under special ceilings in January and February of 1942, and bananas and oranges which were also placed under price ceilings in May and December 1942, respectively. Dollar and cents ceilings have been issued for a few types of fish and maximum wholesale and retail markups for nearly all other types were established in January 1943.

2. Administration of Subsidy Program

The duty of recommending the payment of subsidies in order to restrain increases in the cost of living or to offset uncontrollable increases in other costs was given to the Wartime Prices and Trade Board. In practice, the power to authorize and administer subsidy programs has

1/ P.C. 8527, The Maximum Prices Regulations, November 1, 1941 (effective December 1) as amended and consolidated in P.C. 8528, The Wartime Prices and Trade Regulations, November 1, 1941, as amended; WPTB, order No. 66, Nov. 26, 1941 (effective Nov. 29) and order No. 67, December 1, 1941 replaced by order No. 189, September 22, 1942 (effective Oct. 1) as amended.

been exercised by the WPTB subject to the direction of the Minister of Finance. A special corporation - The Commodity Prices Stabilization Corporation - was established 1/ to operate under the direction of the Board and this corporation has administered the subsidy and purchase and sales operations instituted by the Board. General policy decisions are made by the Board subject to the approval of the Minister of Finance. The details of each case, including the rate and method of computing the subsidy, are worked out by the corporation with the advice of the Prices Board Commodity Administrator concerned. The corporation verifies claims and makes the actual payments. All actions of the corporation are subject to the supervision and final approval of the Board.

Agricultural subsidies of various types have also been paid throughout the war period by the Department of Agriculture and boards operating under its direction. These subsidies have been principally designed to increase or direct production rather than to control prices. For example federal subsidies are paid on eggs for export. Federal and provincial subsidies are paid on cheese. A federal subsidy on hogs exported in bacon form to Britain was paid during a six months period in 1941, and provincial subsidies on hogs are paid. Fertilizer subventions are paid, and since March 1941 benefit payments have been authorized to encourage the production of coarse grain. A subsidy to compensate millers for the increase in wheat prices approved in 1942 and to provide a price appropriate to ceiling prices for flour has been paid since August 1942 by the Department of Trade and Commerce, under which the Canadian Wheat Board operates. Millers are eligible for a drawback representing the difference between the average price paid and the appropriate ceiling price. Since 1941 the government has paid the transportation costs east of Western feed grains for livestock. 2/

In February 1943, after several months of increasing criticism of the agricultural price and subsidy policy followed by the Prices Board, a realignment of powers and responsibilities as between the Department of Agriculture and the WPTB was announced. 3/ The responsibility for recommending subsidies payable to primary producers of foods was transferred from the WPTB to the Minister of Agriculture. Consumer subsidies, i.e. those designed specifically to reduce cost to the consumer at the retail level remain the responsibility of the Prices Board, but for commodities domestically produced subsidies must be authorized only after consultation with the Department of Agriculture. The Prices Board is also required to consult with the Department of Agriculture if essential production goals cannot be reached within established price ceilings, and this consultation must include consideration of "subsidies, price adjustments or a decision to regard the estimated deficiency of supply as non-essential". The Prices Board continues, however, to retain final price control responsibility at all stages of production and distribution.

1/ P.C. 9870, December 17, 1941.

2/ Canada, Department of Agriculture, The Economic Analyst, December 1942- "Agricultural Policy: Prices, Bonuses and Subsidies", by F. Shefrin and C. V. Parker, pp. 88-92.

3/ Canada, House of Commons Debates, February 9, 1943, pp. 272-274.

3. Principles of Subsidy Policy 1/

Subsidies are authorized on essential goods when adequate supplies are not forthcoming under the established price ceilings and when the squeeze between costs and maximum selling prices is too great for the industry to absorb. Subsidies are payable to compensate for: a time-lag squeeze resulting from the establishment of the ceiling simultaneously at all levels; higher import costs; unavoidable and uncontrollable increases in real costs due to less efficient labor, use of substitute materials, changes in source of supply and form of transportation, and curtailed production, etc.; rollbacks and inventory losses resulting from rollbacks; as well as to maintain the proper flow and allocation of supplies and to stimulate production.

Subsidies are not payable on all cost increases but are strictly limited to the amount which cannot be "reasonably" absorbed by the industry or firm applying for subsidy. The Board and the corporation have broad latitude to determine the degree of absorption which may be insisted on. Even when a subsidy has been authorized in principle, payments are not obligatory but may be varied or refused at the discretion of the corporation if costs are deemed excessive, if the cost or supply situation changes, or if the profit position of the firm or industry does not warrant a subsidy. The introduction of simplification and economies measures is usually required, particularly in the case of non-food subsidies, as a condition of subsidy payment. In the case of non-food subsidies, particularly, the payment of subsidies is frequently limited to producers, importers or sellers who are not in the excess profits tax bracket.

As a matter of administrative convenience, the general policy of the Board is to pay subsidies at the level of trade at which there are the fewest firms. This is generally the producing or importing level. Payment of subsidies at the lowest or producing levels also prevents the pyramiding of cost increases and minimizes the total amount of subsidy. In principle, however, the subsidy is designed to benefit the consumer and to keep down the cost of living. In the case of most agricultural food products, subsidies are paid to primary processors or distributors rather than to producers themselves since the administrative task of making subsidy payments to innumerable individual farmers would be enormous. Processors and distributors must pass on the full benefit of the subsidy in the form of higher prices to producers.

Although the price ceiling was effective in checking most price increases, the prices of many staple foods, particularly meats, continued to increase through 1942. The cost of living index rose 2.4 points between October 1, 1941 and July 1, 1942 necessitating the payment of an increased cost of living bonus of 60¢ a week to approximately 2½ to 3 million workers subject to the wage control and bonus order. Four months later the index

1/ Speech by Hon. J. L. Ilsley, Minister of Finance, House of Commons Debates, April 23, 1942, p. 2046 - 7; Report of the Wartime Prices and Trade Board, September 3, 1939 to March 31, 1943.

had risen another .7 points, threatening a second increase in the cost increase in the cost of living bonus. The Board feared the effect on the price ceiling of cost increases arising from further bonus payments. Furthermore certain important groups are not eligible for cost of living bonuses. It therefore seemed more equitable to take special steps to check the rise in the index rather than to compensate for increases through the payment of bonuses.

In December 1942, the Board adopted a new subsidy technique. 1/ Direct control of variations in the cost of living index is to be achieved through a policy of selective reduction of retail prices and the payment of subsidies at the retail level. Milk, oranges, tea and coffee were the items selected for this purpose in December. The price of fluid milk sold to consumers was reduced by 2¢ a quart at retail. Distributors are reimbursed at the same rate and payments are made monthly through the chartered banks. Maximum retail prices for tea and coffee were reduced 10¢ and 4¢ a lb. respectively and appropriate reductions were made at all levels. Although neither tea or coffee constitute important items in the index, the fact that the entire supply of both commodities is purchased and sold by the government contributed to the ease of a price reduction, which merely involved lowering the government selling price and increasing the trading loss already being incurred. Orange prices were reduced to base period levels by removing the customs duty and the war exchange tax and authorizing a subsidy to meet increased import costs. The total weight of these four foods in the food component of the cost of living index is 18%, approximately 6% of the total cost of living index. At the same time, banana prices were reduced by means of the removal of the customs duty, war exchange and special excise tax and butter prices were reduced and the provision for seasonal increases eliminated and the subsidy on butterfat increased. As a result of these reductions (applying to 30% of the food index and 9% of the total index) together with some seasonal declines, the food index had fallen 5.5 points by January 1, 1943, and the total index had declined 1.7 points thus eliminating the immediate necessity of increasing the cost of living bonus. 2/

In spite of the considerable drop in the cost of living index as a result of the price rollback for six important foods put into effect in December 1942, the index has continued to increase gradually since that date although due to the December rollback it is still .7 points below the high level of December 1942. Virtually the entire 1 point increase between January 1 and May 1, 1943 (the latest month for which data are available) is due to increases in food prices. The food index has risen 2.6 points during this three month period mainly due to increases in beef.

1/ WPTB, address by Hon. J. L. Ilsley, December 3, 1942, and Statement by Donald Gordon, Chairman of the WPTB, Re Hon. J. L. Ilsley's address, December 3, 1942.

2/ Backman, Jules, Subsidies and Price Control in Canada, - By the use of this technique, subsidies are not paid to finance wage increases but are paid to prevent wage increases.

In line with the policy adopted last December to subsidize rollbacks in the prices of important cost of living items in order to stabilize the index, the Board has just announced that the price of another important food will be rolled back. Effective June 7, 1943, the price of new potatoes has been reduced. The prices of new potatoes may not now exceed the prices of old potatoes. A subsidy equivalent to the difference between the cost to the wholesaler not exceeding specified limits and the new ceiling price for new potatoes has been authorized.^{1/}

An important feature of this new subsidy policy is that subsidies are not necessarily paid on the commodities which have shown the greatest price increases and because of which subsidies are considered necessary. Increases in the price of beef and other meats, for example, have been the major cause of the rise in the cost of living index. One logical remedy would appear to be the payment of a direct subsidy on meat. The Board has rejected this proposal so far. The payment of a subsidy on beef, for instance, presents particularly difficult administrative problems because of the large number of small processors. In the absence of control of livestock prices and the particularly complicated price structure of meats, it would be difficult to exercise the proper control over individual subsidy payments as well as the total amounts which might have to be expended. Since, however, the purpose of the subsidy program is to stabilize the total cost of living index and since the Board has pointed out that the payment of subsidies is not intended to benefit any particular industry or firm but is merely a method of stabilizing prices in general and protecting the consumer, the recipients of subsidies are selected not because of their special need of subsidy but on the basis of administrative and economic effectiveness of control. For this reason the Board selected commodities such as tea, coffee, milk, oranges and more recently potatoes which present relatively simple subsidy problems. In two cases - tea and coffee - the supply was purchased and sold entirely under government auspices. In the other three cases, the sources of supply and a simple price structure already subject to control were important factors.

4. Subsidies Paid on Food ^{2/}

a) Domestic Subsidies

Domestically produced foods on which direct subsidies to producers or processors are now paid are: fluid milk; concentrated milk products; butter; canned tomatoes, peas, corn, beans, peaches and tomato juice; frozen eggs; strawberries; peaches; strawberry, raspberry and loganberry jam; a large group of processed groceries; flour; potatoes; and tomatoes, corn, peas and beans.

b) Import Subsidies

Some foods which are not domestically produced are eligible for import subsidy ^{3/} and subsidies have been paid on tea, cocoa butter, cocoa beans, vanilla beans, spices, dried fruits, peanuts, cleaned and uncleaned rice, tapioca, canned corn beef, rennet, salt, lima beans, white corn,

^{1/} WPTB, Press Release No. 0519, June 1, 1943.

^{2/} Report of the Wartime Prices & Trade Board, September 3, 1939 to 3/31/43.

^{3/} WPTB, Statement of Import Policy, December 2, 1941, revised Jan. 1, 1942, August 1, 1942 and February 11, 1943.

oranges, grapefruit juice, unsweetened fruit pulp, molasses and skimmed milk butter. Of these 20 commodities, six - canned corn beef, lima beans, cleaned rice, tapioca, fruit pulp and grapefruit juice - have now been declared ineligible for subsidy. Six others - tea, cocoa beans, vanilla beans, spices, dried fruits, and peanuts - are now ineligible for subsidy because they are subject to bulk purchase by the CPSC which resells in the domestic market at prices consistent with the price ceiling. Five items - cocoa butter, salt, white corn, uncleaned rice, and molasses - are only eligible for subsidy after prior approval.

Import subsidies have also been paid on a number of agricultural supply and equipment items such as seeds, fertilizers, and farm machinery and equipment.

c) Purchase and Sale Programs

In addition to the six imported commodities listed above, imports of coffee, fats and vegetable oils, sugar and such agricultural supplies as fertilizers and pesticides are subject to indirect subsidy through government purchase and sale programs. All these items are purchased by the CPSC with the exception of sugar. All imports of sugar have been purchased by the Wartime Prices and Trade Board Sugar Administrator since the outbreak of war.

As a result of a developing beef shortage in the spring of 1942, the government intervened to buy and sell on the domestic market beef destined for export in order to maintain adequate domestic supplies without lifting domestic ceilings.

d) Transportation Subsidies

A number of subsidies have been paid to cover transportation costs of certain commodities. This type of subsidy is designed to maintain the proper flow and allocation of supplies to various areas and operates to cut costs of distribution without necessitating individual subsidy payments to all producers or sellers. The administrative burden of making such subsidy payments is very slight and any undesirable economic and psychological aspects of government subsidizing of producers and sellers is avoided. In order to encourage the movement of beef from the Western surplus area to the Eastern deficit area, a subsidy covering a part of the transportation costs is now being paid. Subsidies are paid to cover the increased costs involved in supplying fertilizer to farmers from new sources. The corporation has also been authorized to pay subsidies to cover costs of transportation and other extra costs involved in moving butter from surplus to shortage areas.

e) Inventory Subsidies

Price rollbacks have not only required the payment of continuing subsidies in order that the rollbacks be maintained but may also involve the subsidizing of inventory losses incurred at the time of the rollback. This type of subsidy is not, of course, recurring. Subsidies to compensate for inventory losses have been paid on tea, coffee, and butter in connection with the rollback in the prices of these items instituted in December 1942. The subsidy on the 1941 pack of canned fruits and vegetables was also to compensate for a rollback in price.

A more detailed summary of the domestic subsidies which have been paid in Canada is given below.

Milk

Temporary subsidies were first paid on fluid milk both for consumption in fluid form and for manufacture into concentrated milk products, effective December 22, 1941. The subsidy amounted to 30¢ per cwt. on milk sold for direct consumption in areas where there had been no price increase since August 1, 1941 and 40¢ per cwt. on milk sold for concentrated milk manufacture above a minimum price of \$1.70 per cwt. or the current price whichever was higher. Payments were made to producers by distributors and manufacturers who were reimbursed monthly by the CPSC. The subsidy was granted as a temporary measure to ensure adequate supplies while certain inequalities in the base period price structure were corrected. Prior to the base period, increases in producers prices in certain areas had been approved while prices in others had not increased. This subsidy was discontinued on April 30, 1942, when the Board issued a revised maximum price schedule which permitted some increases and was designed to provide adequate and equitable price returns without the need for subsidy.

Effective September 1, 1942, a new subsidy of 25¢ per cwt. on milk sold at retail in fluid form in markets specified by the Board was authorized. After May 1, 1943, this subsidy is to be paid by the Department of Agriculture.

On April 3, 1943, the Minister of Agriculture announced the details of the 1943/44 price - subsidy policy covering butter and milk.^{1/} The 25¢ per cwt. subsidy on fluid milk is continued. Producers of milk used for concentration purposes will be subsidized also at a rate of 25¢ per cwt. during the winter months of October 1943 to April 1944. During March and April 1943, the Agricultural Food Board paid similar subsidies on milk used in concentrated products.

A subsidy at the retail level of 2¢ a quart of milk has been in effect since December 1942. This subsidy is paid to retail distributors to compensate for a 2¢ rollback in the retail price of milk introduced at this time.

Butter

In order to prevent the development of an acute butter shortage indicated by a serious decline in production resulting from low prices of milk for butter manufacture relative to other uses, a subsidy of 6¢ a pound on butterfat (equivalent to 5¢ a lb. on butter) was authorized on July 1, 1942, on all creamery butter. This subsidy did not remedy the supply situation sufficiently rapidly. Butter rationing was introduced in December 1942. At the same time, the seasonal price increases for butter, which had been previously authorized, were cancelled in order to remove any incentive to withhold supplies and the subsidy was increased

^{1/} P. C. 2709, April 2, 1943.

to 10¢ a pound of butterfat for the period December 21, 1942 through April 30, 1943. Early in April the Minister of Agriculture announced that a subsidy of 8¢ a lb. would be effective May through December 1943 which would be raised to 10¢ for the months January through April 1944. Responsibility for this subsidy has been transferred from the CPSC to the Department of Agriculture. 1/

In order to provide adequate markets for dairy butter, the normal outlets for which had been adversely affected by rationing, the CPSC has been authorized to purchase through retailers and other dealers all dairy butter offered by farmers. The corporation sells this butter to industrial users, who are permitted to purchase creamery butter only under very limited conditions.

Subsidies to cover costs of transportation and other costs involved in moving butter from surplus to shortage areas have been authorized.

Canned Fruits and Vegetables

A temporary subsidy was paid on stocks of the 1941 pack of specified fruits and vegetables which are still on hand when the price ceiling was introduced. Wholesalers' and retailers' base period prices had been established on the basis of advance prices quoted by canners in the spring of 1941. Canners' prices increased before the end of the base period and wholesalers and retailers found it difficult to replace stocks within the retail ceiling. Canners' prices were therefore reduced to the lowest f.o.b. price charged last spring. Owners of stocks were subsidized, wholesalers to the full extent of the rollback and canners by 80% of the difference. Wholesalers were not reimbursed for any carrying charges or taxes paid on the original higher cost price. Retailers were required to absorb the higher costs incurred on any stocks already on hand. If wholesalers or retailers found their costs reduced below those on which their base period selling prices were based, they were required to reduce their selling prices proportionately.

A similar subsidy on the 1942 pack was later authorized. Canners costs for 1942 season had increased partly due to higher growers' prices which had been considered necessary to encourage production. Subsidies at specified cents per dozen cans were authorized on tomatoes, peas, beans and corn, constituting approximately 80% of the Canadian vegetable pack, as well as on tomato juice, peaches, pears and plums. The Board has also guaranteed to purchase at stipulated prices any surplus stocks of canned tomatoes, peas, corn, and green and wax beans on hand after February 1, 1943. Only canners who have paid growers prices which exceed 1941 prices

1/ P.C. 2709, April 2, 1943.

by stipulated amounts are entitled to sell to the corporation. The purchase price is slightly higher than the established ceiling prices but less than the ceiling prices plus the subsidy. No subsidies are payable on goods purchased by the CPSC. To date no purchases have been made.

The canned fruit-vegetable subsidy will be continued on the 1943 pack at the same rates and covering the same commodities. An additional subsidy of 3¢ per dozen cans of tomatoes and 2¢ per dozen cans of tomato juice was announced in March 1942.

Fresh Vegetables 1/

In 1942 the Department of Agriculture subsidized the primary production of tomatoes, corn, peas and green beans on the following basis:

Tomatoes.....	\$1.00 a ton	
Corn	\$2.00 a ton	
Peas.....	\$7.50 a ton	(shelled weight)
	\$1.50 a ton	(straw weight)
Green wax beans.....	\$5.00 a ton	

Increased subsidies on these four items were announced in March 1943 by the Department of Agriculture as follows:

Tomatoes.....	\$3.00 a ton	
Corn.....	\$4.00 a ton	
Peas.....	\$10.00 a ton	(shelled weight)
	\$2.00 a ton	(straw weight)
Green or wax beans.....	\$7.50 a ton	

Strawberries

Processors who paid 8¢ or more a pound to growers for fresh strawberries for jam making and preserving were eligible to apply for a subsidy of 2¢ a pound during 1942. This subsidy was necessitated by the removal of Japanese labourers from the coastal area of British Columbia and the need to maintain production. Abandoned strawberry acreage could not be taken over and operated except at greatly increased costs.

Peaches

A subsidy of \$5 a ton was paid on fresh peaches processed in Ontario during the 1942 canning season. Subsidies were payable to processors who paid specified higher prices approved by the Ontario Farm Products Control Board. The subsidy was authorized to enable processors to sell the canned fruit under the ceiling.

1/ P.C. 2/2105, March 16, 1943.

Strawberry, Raspberry and Loganberry Jam

A subsidy of 3¢ a pound to manufacturers of strawberry, raspberry and loganberry jam was authorized in May 1943 by the Department of Agriculture. A subsidy was required to enable manufacturers to compete with the fresh fruit market for supplies and continue to sell under the ceiling. The manufacturers will include the subsidy in the price they pay growers and will be reimbursed later by the Department of Agriculture. The subsidy is deemed essential to keep jam production up to last year's level and it is hoped that it may encourage some increase in 1944 acreage.^{1/}

Frozen Eggs

Greatly increased domestic demand, which will be intensified by the recent introduction of meat rationing, coupled with sharply increased British requirements have emphasized the need to step up egg production considerably. A subsidy of 1¢ a pound on all frozen eggs sold on the domestic market or used by processors or for manufacture was authorized in March 1943 by the Prices Board. One of the purposes of this subsidy is to equalize returns from domestic and export sales since export prices under British contracts had recently been increased.^{2/}

Processed Groceries

In March 1942, manufacturers' prices for a group of processed foods were rolled back and manufacturers were declared eligible to receive a subsidy equal to the amount of the rollback provided they are not earning excess profits as defined under the Excess Profits Tax Act. This group now covers: baking powder, pea barley, pot barley, breakfast cereals, processed coconut, roasted coffee, package coffee, and coffee substitutes, baking chocolate, cream of tartar, cocoa and chocolate with added malt in paste or powder form for beverage purposes, flavoring extracts, jam, jelly and marmelade, jelly powders and pudding powders, canned maple syrup, macaroni products, mayonnaise and salad dressing prepared and dry mustard, canned meats, canned molasses, rolled oats and oatmeal, cooking oil, peanut butter, pickles and relishes, split peas, canned pork and beans, table salt, canned soup, canned spaghetti, spices, corn syrup, tapioca and vinegar.

Four other food products - evaporated apples, soda biscuits and sweet biscuits, processed cheese and mincemeat - were originally included but other arrangements and adjustments have been made in these cases permitting the elimination of subsidies for these products.

Individual manufacturers' prices were rolled back to the highest prices charged during June 1941. Maximum subsidies equivalent

^{1/} WPTB, Weekly News Digest; No. 31, May 17-22, 1943, p. 8.

^{2/} WPTB, Press Release No. 0446, March 31, 1943.

to the rollback are paid in the form of accountable advances on a monthly basis up to 90% of the maximum subsidy. The remaining portion will be paid when the corporation has made a final determination after the subsidy has been adjusted by the manufacturer's "excess profits". Any sums paid in excess of the amount finally determined shall constitute a debt owed by the corporation.

Potatoes

In order to compensate for the reduction in the price of new potatoes effective June 7, a subsidy equivalent to the difference between the cost to the wholesaler and the new ceiling price for new potatoes was authorized. Subsidies will not be paid on costs in excess of specified amounts. Retailers buying direct from primary producers are eligible for the same subsidy. The subsidy will be effective through August 31, 1943.

Beef

Beef has been subject to two partial and indirect types of subsidy. Since February 1943, a temporary subsidy has been paid on part of the eastern transportation costs in order to encourage the movement of beef from the surplus western area to the eastern shortage areas.

As a result of a developing beef shortage in the spring of 1942, the Board took action to restrain exports in order to ensure adequate domestic supplies. In June 1942, uniform dollar and cents wholesale ceilings were established at higher levels than had obtained under the base period ceiling, exports were placed under license, and a War-time Food Corporation was established with power to buy and sell and to regulate exports. Under the supervision of the Board, the corporation bought cattle destined for export at export prices. Such cattle were resold in the domestic market at prices consistent with the wholesale price ceiling. This technique secured export prices to producers on that portion of their sales which would be normally exported, avoided lifting domestic prices to bring them into line with export prices, and protected domestic supplies. Experience with this differential price policy was not satisfactory. The corporation was compelled to make purchases far in excess of what had been anticipated. The payment of a higher export price for cattle up to the quarterly quota allowed under the U.S.-Canada Trade Agreement resulted in uneven marketings and protests from producers who found it difficult or impossible to send their cattle to the limited number of official export appraisal offices. The policy was therefore abandoned in September 1942. The corporation became the sole exporter of cattle. The domestic wholesale price ceiling was again raised and export prices were no longer paid on any cattle. It was agreed the corporation would buy cattle only when necessary to support cattle prices at levels consistent with wholesale ceilings. No cattle have been purchased since August 1942.

5. Cost of Subsidy Program 1/

Subsidies on food products paid by the CPSC in order to maintain price ceilings amounted to approximately \$28 $\frac{1}{2}$ million during the first 16 months of the ceiling. Domestic subsidies accounted for slightly more than \$25 million, of which approximately \$10 million was paid out on butterfat and butter, nearly \$9 million on milk, nearly \$2 million on canned fruits and vegetables, and the major part of the \$1 $\frac{1}{2}$ million subsidy paid on miscellaneous groceries was paid on processed foods. Approximately \$2 $\frac{1}{2}$ million was paid out to compensate for inventory losses on tea and coffee when the prices of these products were rolled back in December 1942. Only a little over \$100,000 was paid out on the remaining products which were subsidized - strawberries, cereal products (i.e. pot and pear barley included in the group of processed foods for which subsidies have been authorized) and peaches.

Subsidies on food imports totalled only \$3.4 million, of which the subsidy on tea amounted to approximately \$1 million, cocoa beans to roughly \$690 thousand, prunes \$471 thousand, uncleaned rice \$445 thousand, grapefruit juice \$212 thousand, and oranges \$122 thousand. Tea, cocoa beans and prunes are now ineligible for subsidy since all imports are purchased directly by the corporation. Oranges were first declared eligible for subsidy in December 1942 in order to compensate for the price roll-back put into effect at that time. Uncleaned rice is only eligible now after prior approval by the corporation. Grapefruit juice has been ineligible since December 1942.

Subsidies paid by the CPSC on food transportation costs totalled approximately \$75 thousand through March 31, 1943. Only the subsidies on butter, fertilizer and flaxseed movements are included. No payments on beef transportation had yet been paid. The subsidy on eastern transportation of western feed grains was paid by the Department of Agriculture.

Trading losses of the Wartime Food Corporation Ltd. on sales of beef cattle purchased in the summer of 1942 amounted to \$831,497.90.

Information regarding the cost of subsidies paid by the Department of Agriculture on foods and other agricultural products is not available in any precisely accurate or comprehensive form.

6. Relation of Price Control and Subsidies To Cost of Living Index

The food component of the Canadian cost of living index represents 31% of the value of the total index. The food index covers

1/ Report of the Wartime Prices and Trade Board September 3, 1939 to March 31, 1943, pp. 101 - 107.

45 different items.^{1/} Changes in the food indexes are computed from returns representing prices on the first day of each month from approximately 1600 grocers and butchers, representing both chain and independent stores, in 69 cities.

Every item in the foods index, except lemons and fresh beans (.6% of food index and only .2% of total index), is subject to a price ceiling. Onions, potatoes, and oranges were originally exempted when the general price ceiling was imposed but have been placed under ceilings at various times during the last year. ^{2/}

Dollar and cents ceilings have been established for 17 commodities ^{3/} representing 22 of the 45 items and approximately 72% of the food index. With the exception of beef for which dollar and cents retail ceilings have been fixed for specified urban areas and milk, dollar and cents prices are fixed at the manufacturing or wholesale level with wholesalers and retailers maximum markups specified.

Twenty-six ^{4/} of the 45 items representing approximately 57% of the food index and roughly 18% of the total cost of living index are directly or indirectly subsidized. Seven of these commodities (8 items in the index) or 7% of the food index are subject to purchase and sale programs and therefore classified as indirectly subsidized. If beef is included as having been subject to temporary and partial subsidy, the percentage of the food index subject to subsidy is raised to approximately 70%, representing roughly 22% of the total index.

An additional type of indirect subsidy has been provided for 7 commodities (tea, coffee, oranges, sugar, rice, dried fruits and vegetable oils) by the remission of import duties and taxes and the modification of valuation standards for customs purposes. ^{5/}

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- ^{1/} The total number of different items in the food index may be classified as follows: 3 dairy products (milk, butter and cheese); eggs; 14 meats and fish (5 beef items, 2 pork items, veal, lamb, bacon, canned salmon, finnan haddie, vegetable shortening, lard); 5 cereal products (bread, flour, rice, rolled oats, corn flakes); dry groceries (2 sugar items, tea, coffee, cocoa, salt); vegetables (beans, onions, potatoes, canned tomatoes, canned peas, canned corn, and canned beans); fruits (raisins, currants, prunes, strawberry jam, marmelade, canned peaches, corn syrup, lemons and oranges).
 - ^{2/} Maximum prices were first established for onions on January 22, 1942; potatoes on March 10, 1942; and oranges on December 7, 1942.
 - ^{3/} Milk, butter, cheese, eggs, canned salmon, beef (5 items), veal, lamb, pork (2 items), bacon, lard, canned tomatoes, peas, corn, beans and peaches, and potatoes.
 - ^{4/} Milk; butter; bread; flour; rice; rolled oats; corn flakes; salt; potatoes; canned tomatoes, peas, corn, beans and peaches; strawberry jam; marmelade; vegetable shortening; oranges; sugar (2 items); tea; coffee; cocoa; raisins; currants; prunes.
 - ^{5/} Report of the Wartime Prices and Trade Board September 3, 1939 to March 31, 1943, pp. 108 - 111.



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